



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

**HELD ON
Monday, April 30, 2012
8:00 a.m.**

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 8:04 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair (via teleconference)
Mr. Chris Harris, Vice Chair (via teleconference)
Prof. Dennis Hoffman (via teleconference)

Absent: None.

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding the ASRS Asset Allocation Study – Part 3

Mr. Gary Dokes, Chief Investment Officer, addressed the Committee regarding the ASRS Asset Allocation Study. He noted the ASRS Asset Allocation Study had been discussed at three meetings in 2012, between IC Trustees, NEPC, and ASRS staff, to understand and develop the proposed changes to the ASRS asset allocation policy. As a result of those discussions, NEPC and the ASRS developed a final recommended strategic asset allocation policy (SAAP) which incorporates strategic investment themes while providing the ability to take advantage of opportunities present in the financial markets.

Mr. Dokes explained staff and NEPC used an efficient frontier mean-variance analysis methodology to assist in developing the SAAP, noting key investment themes were to:

- Increase Diversification
- Increase Returns in a Low Return Environment
- Maintain Significant Liquidity
- Remain Fee and Cost Conscious
- Increase Allocations to Passive Strategies

Mr. Dokes presented the recommended SAAP Schematic. Mr. Allan Martin, NEPC, presented the Current, Proposed, and Efficient Frontier Portfolio Comparison. Mr. Martin noted NEPC worked with Windham Capital Management on various analytics, with a focus on risk measurement and risk management. He said the following were the primary recommended changes to ASRS' existing SAAP:

- Reclassified investments into three (3) broad asset class categories
 - Better alignment of the economic drivers for underlying asset classes
- Reduced Allocation to Public U.S. Equities and U.S. Core Fixed Income
 - Improve diversification and allow more flexibility for tactical credit opportunities
- Increased Allocation to Public Non-U.S. Equities, EM Equity/Debt, Private Debt, High

Yield and Commodities

- Improve diversification and maintain a more comprehensive set of asset class opportunities
- Reclassified Opportunistic Investments (0-10%) in their respective broad categories
 - Improve the specificity of asset classes and the rationale for underlying mandates
- Added an allocation to Infrastructure and Farmland/Timber each with a 0% Target and 0-3% target range
 - Increase the Inflation Linked opportunity set while maintaining sensitivity to timing of entry and alignment of interest between asset class vehicle and underlying long-lived assets
- Maintained GTAA at 10% with a 5-15% target range
 - Provides tactical overlay for alpha generation
- Established Policy Target Ranges primarily at the broad asset class categories
 - Controls for risk while still maintaining flexibility for tactical opportunities
- Established Minimum Passive % Target for public equity and fixed income
 - Consistent with Investment Beliefs and reflects perspectives on asset class efficiencies

Mr. Chris Harris suggested Real Estate be noted in the list of asset classes with increased allocations. Mr. Dokes concurred. Discussion ensued regarding the rebalancing analysis results.

Prof. Dennis Hoffman asked if the recommended decreased allocation to U.S. equities compared to non-U.S. equities meant increased exposure to Europe. Mr. Martin affirmed it did.

Prof. Hoffman departed the meeting at 8:30 a.m.

The IC recessed at 8:54 a.m.

The IC reconvened at 10:34 a.m.

Mr. Tom Connelly, Mr. Chris Harris, and Prof. Dennis Hoffman were all present via teleconference.

Motion: Mr. Chris Harris moved to recommend to the Board the approval of the ASRS Asset Allocation Policy Schematic as denoted in Exhibit A. Prof. Dennis Hoffman seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved.

3. Call to the Public

No members of the public were present.

4. Adjournment

The meeting adjourned at 10:36 a.m.

Respectfully submitted,

Lisa Maddox, Secretary

Date

Gary Dokes, Chief Investment Officer

Date